

A Best Practice
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The Massachusetts Contributory Retirement System

Massachusetts public employees are covered by a defined benefit pension plan administered by 105 local retirement boards including the Massachusetts State Retirement Board, and the Massachusetts Teachers Retirement Board. The Public Employee Retirement Administration Commission (PERAC) oversees all these boards, and all the systems are governed by G.L. c. 32 which in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems. Currently, the system includes over 500,000 active workers and retirees.

The Massachusetts System consists of four membership groups, each with members eligible for formula driven retirement benefits upon meeting certain conditions. The system is funded by a combination of employer and employee contributions, investment returns, and State funding. For more information on the Massachusetts system, see the “Massachusetts Public Employee Retirement Guide” available on PERAC’s website.

As total pension costs grow, communities continue to seek ways to control the increase in their retirement system’s assessed cost. This article reviews one Massachusetts City’s FY2014 approach.

Malden’s Contributory Retirement System

The City of Malden’s Contributory Retirement System is one of Massachusetts’ 105 local retirement systems. Malden public employees, including Malden Redevelopment Authority and Malden Housing Authority employees are covered by a cost-sharing, multiple employer defined pension plan administered by the Malden Retirement Board. Excluded from coverage are teachers and certain school department administrative personnel whose pensions are administered by the Massachusetts Teachers’ Retirement Board. Participation is mandatory for all applicable, full-time employees.

According to PERAC’s 2012 Annual Report, as of December 31, 2012, the System had a market value of \$181.1 million, with 1,466 active and retired plan members. The System had a funding ratio of 70.1% and an unfunded liability of \$76.5 million. The system is scheduled to be fully funded in FY2030. Malden’s 2012 5-year investment return history exceeded a composite rate for all 105 retirement systems.

The City’s retirement assessment grew in recent fiscal years by 12% from \$7.5 million in FY2010 to \$8.4 million in FY2014, and has for many years been paid to the System quarterly. As do almost all State retirement system assessments, Malden’s is

calculated by PERAC and includes within it basic actuarial assumptions such as membership and economic characteristics. But also included is the employer's assumed assessment payment date, which if assumed after July 1, factors in an 8% premium, (the investment rate of return assumption used by Malden in its January 1, 2012 actuarial valuation). This is a common rate used by many Massachusetts systems. In effect, then, the City's quarterly payment includes interest for payments made after July 1.

The Challenge

In his Spring of 2013 presentations before the Massachusetts Municipal Auditors' and Accountants' Association and the Massachusetts Society of Certified Public Accountants, Director of Accounts Gerry Perry reminded the attendees that beginning in FY2014, Chapter 165 of 2012 requires Cherry Sheet aid to be distributed monthly rather than quarterly. Noting improved cash flow and investment potential, the Director further challenged them to find additional ways to positively impact their community's financial condition.

The Idea

With the Director's comments in mind, Malden's financial management team including Treasurer Mark Good, Controller Chuck Ranaghan, Analyst Ron Hogan, and the City's independent Certified Public Accountant Tony Roselli of Roselli, Clark and Associates, contemplated whether there could be a significant savings to the City's FY2014 Contributory Retirement System assessment if the entire bill was paid sooner simply using the cash from its new monthly Cherry Sheet distribution. According to Analyst Ron Hogan, "Paying the bill sooner using our own cash means that we don't have to pay the extra 8% built into the calculation." The team's idea had the full support of Mayor Gary Christenson.

The Research

Upon the advice of the team, Kevin Morrison, Director of the Malden Retirement Board, contacted PERAC. The date of September 15 was chosen by the City as the new assumed assessment payment date for FY2014. "By examining our FY2014 cash-flow, that was our optimal date," according to Treasurer Mark Good. PERAC's recalculation determined that the City would save about \$300,000 in FY2014. According to State Actuary Jim Lamenzo, "Paying the assessment in full early in the fiscal year rather than later lowers the total cost."

The Result

Analyst Ron Hogan presented the new payment option to the Malden Retirement Board which gave its stamp of approval.

According to Controller Chuck Ranaghan, “Reserves are sufficient, cash flow is right and we received about \$9 million in July and August from our monthly distribution of Cherry Sheet aid that normally wasn’t available until October 1. It was a no-brainer for us. The City plans to pay the entire assessment as early as July 1 next fiscal year and estimates an additional \$200,000 savings, bringing the projected annual savings going forward to almost \$500,000.”

According to Auditor Tony Roselli, “Even if a community is a member of a county retirement system, paying the assessment earlier in the fiscal year rather than their planned payment schedule can save money and communities should consider it if their cash flow allows.” He cautioned, however, that although using cash from short-term revenue anticipation borrowing may also seem cost effective, such action could be seen in the negative by ratings agencies and must be thoroughly researched before doing so.

Conclusion

The Malden approach for FY2014 presented here illustrates many best practices. However, we have highlighted their use of the monthly distribution of Cherry Sheet aid to lower their retirement system’s annual assessment by significant dollars to encourage other communities to research the possibility for themselves.

This is how partnership is supposed to work in an effort to improve financial administration. Congratulations and thanks to the Malden financial management team and the Malden Retirement Board for their idea and their efforts.